

Without a performance management system, General Assembly managers/supervisors do not have a formal system to communicate:

- Job duties
- Expectations
- How well employees are performing their duties and if employees are meeting managers'/supervisors' expectations

The absence of a performance management system also hinders the General Assembly's ability to award performance increases. A discussion of performance management can be found in Finding 8.

Without a policies and procedures manual, there is no means to ensure consistent application of personnel practices and programs such as decisions regarding salary determinations and leave policies. A policy manual provides the framework for management decisions.

Research by the Council of State Governments and National Conference of State Legislators (NCSL) has shown that the growth and professionalization of legislative staff since the 1980s has resulted in the need for improved human resource management systems. Several legislatures, including Connecticut and Maine, have undertaken comprehensive reviews of their classification systems and pay plans. A number of legislatures have established performance evaluation systems and programs that offer professional development for staff, including Florida and Texas. The NCSL has seen a shift in the human resource practices of legislatures. Many state legislatures are beginning to develop personnel policies, job descriptions, and classification and compensation systems and are creating a distinct personnel function within this branch of government. According to the NCSL, 19 states report that they have a personnel officer in one or both houses of the legislature and 14 state legislatures have a comprehensive classification and compensation system.

Recommendation

- Longevity pay should be discontinued or, if continued, should be equally applied. If continued, we recommend the payment schedule for the executive branch be utilized in all three branches. Statewide application of the executive branch longevity schedule would save an estimated \$2,500,000. Elimination of longevity programs would save \$30,000,000. These savings would be available for performance increases, should the State decide to shift its compensation philosophy to a pay-for-performance based system, as discussed in Finding 7.
- Temporary employees performing like duties should be treated equally across State government. This can be achieved in one of two ways:

- (1) Temporary employees in all branches of government should be provided health benefits, retirement benefits, and paid leave benefits equal to the General Assembly's current practice.
 - (2) Temporary employee benefits within the General Assembly should be revised to conform with the executive and judicial branches' current practices.
- The State should carefully analyze the inequities in the retirement systems and determine if they are justified. This analysis should include all post-retirement benefits provided to various employee groups such as:
 - Pension plan
 - 401(k) plan
 - Severance allowance

Justifications for existing inequities need to be balanced against the State's ability to fund post-retirement benefits. Elimination of the State Special Separation Allowance would save \$2-3 million a year.

- The General Assembly's personnel needs should be incorporated in the comprehensive resource planning initiative recommended in Finding 1 and the General Assembly should develop a formal human resource management function. The system should be managed by a human resource professional whose responsibilities include developing, maintaining, and implementing the following human resource programs and principles in both the Senate and House:
 - Job descriptions
 - Classification system
 - Pay plan
 - Performance management system
 - Personnel policies and procedures
 - Recruitment and selection
 - Career development
 - Training

An independently run but integrated human resource system for the General Assembly should help to alleviate the perceived or actual inequities of salaries and available

programs when compared to the other branches of government and to the competitive market. Subjectivity in personnel practices would be lessened if formal human resource management programs were in place.

Finding 3 - The State personnel function lacks the appropriate professional tools, techniques, and experience requirements typically found in contemporary human resource management practices

Experience requirements

The State Personnel Director is a political appointee and the position has no minimum professional human resource experience and education requirements. The personnel directors in the agencies are also political appointees although they must meet the minimum requirements of the classification specification to be eligible for the position. Most directors are classified as a Personnel Director I, II, or III although some of the smaller agencies may be classified as Personnel Officer I, II, or III. The requirements for personnel directors and personnel officers are graduation from a four-year college and two to four years of personnel and supervisory experience or an equivalent combination of training and experience. The language "equivalent combination of training and experience" leaves room for flexibility in selection and for agencies to make marginally qualified individuals fit the classification.

The human resource function of the 1990s is one of adding value to the organization through the application of technical, interpersonal, professional, and managerial skills. Personnel is a business function and as such requires leadership and management by an educated professional with practical experience in the application of personnel programs.

For comparison purposes, we evaluated the professional experience requirements of the State personnel director in other state governments compared to the State of North Carolina. We found that 46 percent of the state personnel directors have education and experience requirements. The study also indicates that there is high turnover among state personnel directors mainly because 64 percent are appointed by the Governor and only reside in office as a personnel director for the tenure of the administration.

Human resource performance measurement

Performance measurement of the productivity, effectiveness, and efficiency of the human resource function is a common tenant in contemporary human resource practices. However, performance measurement is not a management goal or practice at OSP.

In the 1993-1999 departmental plan, one of the primary goals of the OSP is to promote efficiency in the delivery of human resource management systems, but the strategies outlined in the business plan are focused on increasing the efficiency and productivity of the general workforce, rather than focusing on OSP's attainment of its performance goals for

themselves. To determine whether or not OSP and individual agency human resource management units are providing effective services and programs that support the State's goals, it is important to measure their results.

OSP's Personnel Management Information System (PMIS) is a data base of employee information and position history information. It was implemented in 1974 to handle forms processing as a result of the large volume of manual processing. When performing the performance audit, we requested various data from PMIS to evaluate the effectiveness of the organization and to benchmark against industry norms. Many of our requests were not feasible because information requested was either not available or was not easily obtainable from PMIS or the State's accounting system. Examples of data that were unobtainable include:

- Recruitment costs
- Total training costs
- Total number of applications received
- Total number of jobs posted

The system in place does an adequate job of collecting employee and position information, but it lacks a module that captures the data needed to effectively evaluate the performance of the human resource system.

Recommendations

- The State Personnel Commission should define the professional qualifications that the State Personnel Director and agency personnel directors should have. The recommended qualifications should be provided to the Governor for use in evaluating and selecting the State Personnel Director.

Agency personnel directors should be selected by the agency head through a competitive selection process based on education and experience guidelines recommended by the State Personnel Commission. The directors should be subject to termination for inadequate performance. While agency personnel directors report directly to the agency head, the directors must comply with applicable State personnel policies and procedures and coordinate with and support OSP in carrying out its policy development, planning, and compliance monitoring functions.

Managers and staff supporting the State Personnel Director and agency personnel directors should meet applicable education and experience requirements and should be classified employees.

The legislature should also establish experience and education requirements for State Personnel Commission appointments.

With qualified human resource professionals providing direction and leadership to the State, the State will be better equipped to monitor the performance of the human resource function at both the OSP level and the agency level. Measuring performance will make the human resource function more accountable to the State for its effectiveness and efficiency and will begin to change the perception of the personnel function from that of a reactive service to one that "adds value" to the services offered by the State.

- The State should determine appropriate measures that can monitor the condition and goal achievements of the human resource function. Examples of these types of effectiveness measures include:

Fiscal trends - Measures that relate budget and fiscal issues to the costs for compensation, benefits, and the personnel department expenses.

Employee benefits - Measures to assess the usage of all benefit programs, participation patterns for optional programs, and costs per full-time employee for benefits programs. The State could easily compare its benefits data to other states based on the data collected by the benefits plan administrator.

Absence and turnover - Measures to signal potential problems with workforce absenteeism, dissatisfaction with pay, and turnover rates. Prerequisites to these measures are accurate attendance records and data documenting the reasons given by employees who resign.

Hiring and staffing - Measures to evaluate the rate at which people are joining the organization, the cost of hiring, the time taken to fill jobs, and the ratio of job offers to acceptances.

Equal employment - Measures to evaluate inequities in hiring, promotions, and compensation as they relate to minorities, women, and the disabled.

Training and development - Measures to evaluate the cost per unit of training delivered, change in knowledge and skill based on pre- and post-test scores, and the number of hours of training available to trainees.

- Once the performance measures are defined, an automated system should be developed to allow tracking and monitoring of these measures on an ongoing basis. Agencies could utilize the system to assess their own effectiveness and OSP could judge the overall compliance and effectiveness of State policies and programs. The performance measures should be benchmarked against the other agencies and universities as well as

against other state governments. The State should solicit other state and local governments to participate in a survey of such performance measures.

- Since the role of human resources has evolved over time from one of hiring and compensating employees to that of managing employees, we recommend that the State place a new emphasis on the importance of human resource management. To communicate to employees, citizens, and the legislature the importance of the human resource function, we recommend changing the title of the "Office of State Personnel" to the "Office of Human Resource Management."

Finding 4 - The State workforce's morale is poor and the State's management is frustrated

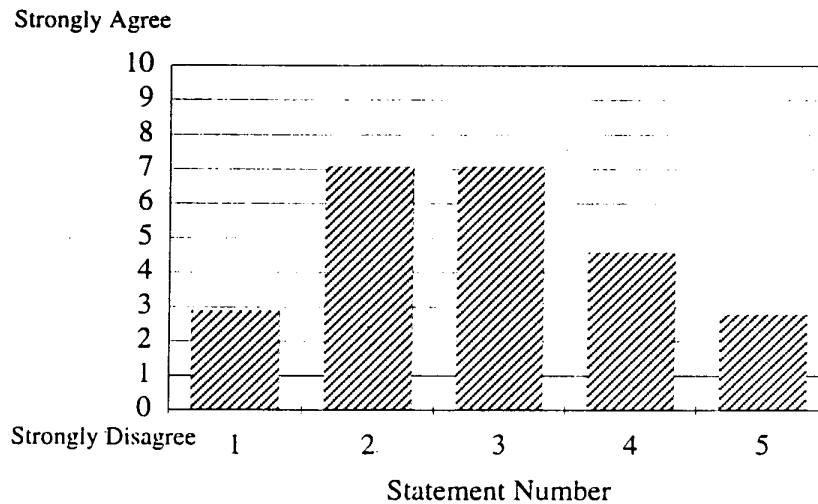
In December 1991, the Government Performance Audit Committee sent approximately 100,000 opinion surveys to State employees in the agencies, universities, community colleges, and the judicial and legislative branches to gather opinions and suggestions on four factors that influence employee work performance:

- Motivation
- Knowledge
- Resources
- Efficiency

Over 33,700 surveys were returned with more than half (17,986) containing specific comments, complaints, and suggestions for improvement. Motivation received the poorest ratings of all the survey categories, as shown in Exhibit 3-9. Of the sample comments and suggestions for improvement received, the common themes relating to human resource management included:

- Dissatisfaction with salary levels
- Inequities across government branches
- Inadequate performance increase appropriations
- Political maneuvering in recruitment
- Ineffective selection and promotion practices
- Inability to link pay to performance

Exhibit 3-9 Employee Survey Responses on Motivation



Statement

1. You are paid adequately for the work you do.
2. You have confidence in the management ability of your immediate supervisor.
3. You are satisfied with your work, overall, and look forward to coming in each day.
4. Most people in your agency feel they are treated fairly.
5. People who work hard in your agency are recognized and rewarded for their extra effort.

Source: Government Performance Audit Committee State Employee
Survey Results Preliminary report

Date: March 20, 1992

- Ineffective management of the performance management system

Overall, the respondents negatively perceived personnel-related issues.

In addition, the morale among State managers and workers is poor. During this government performance audit, the personnel and organization/staffing team interviewed various levels of managers throughout the executive, judicial, and legislative branches of government. A common frustration among managers interviewed is that the limitations and inflexibility of the personnel system do not allow management the ability to manage effectively. In addition, most executive branch managers interviewed believed that they were not given the necessary tools to manage effectively.

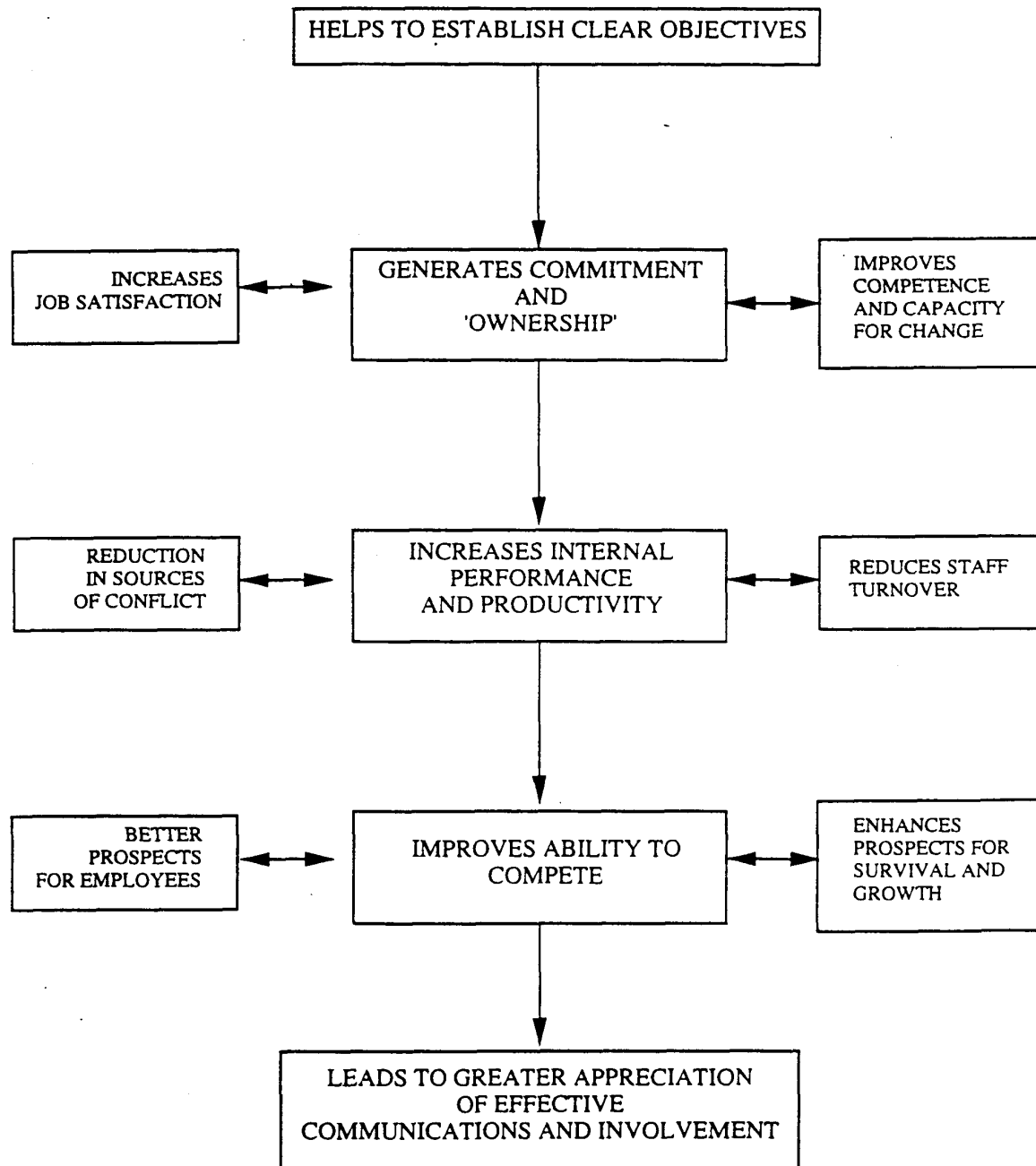
Recommendations

- The State of North Carolina should continue to conduct the employee opinion survey on an annual basis.
- The State should continue to communicate the information received from this survey to the employees. This communication process should be aimed at increasing awareness and understanding to gain greater commitment to the State's goals and objectives. If communicated in a timely manner, the communication of this information also should improve job performance, enhance job satisfaction, and increase motivation. Developing effective employee communications and involvement procedures can generate many benefits. These are illustrated by Exhibit 3-10.
- The employee opinion survey should differentiate between managers and staff and should include all three branches of government. The employee opinion survey should be conducted and administered by the Office of State Personnel.
- To begin an appropriate year-to-year benchmarking process, the State needs to establish appropriate baseline survey questions to ensure useful, "apples to apples" comparisons in the years to come.

Finding 5 - The culture and policies of the State's personnel program do not discourage patronage considerations in hiring decisions

In the Phase I personnel performance audit, there were broad-based concerns expressed and anecdotes cited concerning the influence of patronage particularly on initial hiring decisions in State government. These concerns not only pertained to selection decisions for higher grade and salary positions, but also included lower grade positions in State government. It was often noted that even a low grade State position may be among the highest paying and most secure jobs in many parts of the State. Consequently the competition for such positions is high and, according to many persons interviewed, support of influential State officials has historically been an asset to applicants in securing such positions. The results

Exhibit 3-10
Increased Communications and Involvement



of GPAC's State employee survey also showed that one of their greatest concerns dealt with the effects of patronage on hiring and related personnel decisions.

In-depth research and investigations of patronage and its effects were not performed in Phase I. However, there is considerable anecdotal information that indicates patronage influences have historically existed and currently exist in State personnel practices, particularly in initial hiring decisions. Such practices are inconsistent with the application of sound human resource management practices that are designed to hire, train, and retain the most highly qualified individuals for the State workforce and promote equal employment opportunity for all State citizens. Even the perception of patronage on hiring or promotion or dismissal decisions by State managers and agencies can result in morale and service delivery problems, the loss of credibility of managers and supervisors, exposure to lawsuits and grievances, and the hiring of less qualified applicants for State jobs.

Recommendation

To eliminate the reality and perception of patronage on State personnel practices in the future and to establish a human resource management culture that is consistent with and fully supportive of the recommendations in this report, the following recommendations should be adopted by the State for SPA and non-policy related EPA positions:

- The General Assembly should pass legislation specifying that it is State policy to hire candidates based on their qualifications and without regard to political affiliation.

This legislation also should require OSP and all State agencies to update their personnel policies and procedures to implement this new policy and establish associated controls. Procedures should require that all applicant referrals, from within or outside State government, follow the same selection process. OSP should develop and implement procedures to monitor compliance with such policies and procedures. This legislation should also require the applicable agency supervisors and hiring managers to sign a certification indicating that a hiring decision was made in accordance with State and agency personnel policies and was not made on the basis of patronage.

- The heads of the three branches of State government should regularly reinforce the importance of complying with this policy to the agencies and employees under their control.
- State managers, supervisors, and personnel officials should be trained in applying the new procedures.
- To encourage open competition for available State positions, OSP should require agencies to broaden advertisements of State job openings and to lengthen the period for submitting applications.

Classification system and compensation plan

The State's classification system and compensation plan in the executive branch are outdated and do not allow for effective management of pay or pay delivery to the State's workforce. The individual findings that support this conclusion are:

- The classification system has not had a comprehensive review since 1949 and has more classifications than necessary, which is negatively affecting its effectiveness and perceived integrity
- The State's compensation philosophy is heavily weighted toward cost-of-living and longevity pay as opposed to pay for performance
- Eighty-three percent of fiscal year 1991's employees who underwent evaluation were rated "exceeds expectations," which is so highly skewed that it reduces the performance evaluation's effectiveness for use in a reward for performance system

These findings and our recommendations are discussed in detail below. The judicial branch's classification system was being revised and implemented during Phase I of the audit; therefore, we did not include the judicial branch classification system in our analysis.

Finding 6 - The classification system has not had a comprehensive review since 1949 and has more classifications than necessary, which is negatively affecting its effectiveness and perceived integrity

North Carolina's current classification system was implemented over 40 years ago and has never had a comprehensive review. Only one state has an older system (1946) and our analysis also found that 20 states require their classification system to have periodic comprehensive reviews. Since 1949 the services provided by the State have changed dramatically and any classification analysis by the State has been conducted solely for selected classifications. This changing environment and improved technology has led to the addition of new jobs (e.g., Word Processing Operator), new job classes (e.g., Word Processing), and additional job levels (e.g., Word Processing Operator IV). Many of the job categories that have been added to the classification system include only one employee, indicating that the system may have been misused to raise the compensation levels of employees. In addition, position management has been decentralized to 8 agencies and 10 universities. Each agency and university with a performance agreement or decentralization agreement has authority to:

- Determine the proper classification for a position
- Reclassify employees as duties change or jobs are redesigned

Allowing agencies and universities to determine employee classifications without appropriate guidelines and monitoring from OSP creates greater opportunity for positions to be classified too high and creates potential for inequities and inconsistencies.

A current problem in the university system illustrates the inequities that occur when individual agencies are allowed to classify positions. According to a presentation given to the State Personnel Study Commission and documentation that we have reviewed, the universities have assumed the authority to determine which non-faculty jobs are subject to the State personnel act (SPA), thus becoming subject to the classification system. They also have assumed the authority to determine which jobs are exempt from the personnel act (EPA). Because of this arrangement that was made between the State personnel director and university chancellor 23 years ago, the universities were not required to report SPA to EPA position changes to the OSP. The lack of such reporting to OSP and its monitoring of classification actions can lead to employees receiving inequitable treatment for one or more of the following reasons. Employees may:

- Be paid lower salaries or higher salaries than employees in comparable jobs elsewhere in the State
- Not receive the legislated general increases provided by the General Assembly for SPA employees
- Not receive the merit pay increments provided for SPA employees
- Not receive longevity payments
- Be required to work overtime without the additional compensation required by federal and State laws

According to the OSP, there may be several hundred non-faculty employees in the university system who are misclassified as EPA, which could result in a multimillion dollar liability to the State.

Salary structure

Salary structures are the framework for designating a range of pay that reflects the value of jobs. The State's current salary structure has 40 grades. There is a total of 4,891 classifications, with 4,215 of the job classifications allocated to one of the 40 grades and with 676 classifications paid at a flat salary rate. Periodically, the range of pay becomes uncompetitive for certain positions, so the positions are reassigned to higher salary grades.

Salary range minimums or hiring rates can also become uncompetitive. When this occurs, special entry rates are determined. The State has approximately 550 special entry rates for jobs in the classification system. When critical recruitment or employee retention problems

are officially recognized by the State Personnel Director, but a complete salary range revision is not necessary, feasible, or practical (i.e., the range minimums are not competitive, but maximums are adequate), the State Personnel Director may authorize a special entry rate that is higher than the minimum.

Typically, salary surveys are used to determine market competitiveness. To monitor the labor market, the OSP conducts a limited salary survey every two years. Approximately 130-150 jobs are surveyed each year, and the types of jobs surveyed are usually the same each year.

As with most salary surveys, the OSP survey presents various salary data for each job including average salary, median salary, and the average salary range. An example from the North Carolina Compensation report is shown below:

| Job | Average Salary | Median Salary | Average Salary Range | | |
|--------------------|---------------------------|--------------------------|-----------------------------|-----------------|-------------|
| | | | Min. | Midpoint | Max. |
| Personnel Director | \$49,808 | \$49,566 | \$38,074 | \$49,554 | \$58,533 |

One explanation for the minimums not being competitive is that the State's methodology for evaluating the external labor market does not conform to current compensation theory. Most organizations compare the average salary or median salary to their salary range midpoints because salary structures are designed using the market average, or average salary paid, as the anchor of the structure. This anchor is the midpoint; salary range minimums and maximums are built around this point. Therefore, it is imperative that organizations determine whether midpoints continue to reflect the market average.

The State does not use this methodology in evaluating its salary structure. The OSP compares the survey salary range maximums with the State's maximums for all positions being evaluated. The problem with this is that salary grade maximums do not reflect what the job is actually being paid by other organizations. As can be seen from our example of the Personnel Director above, the median salary and the average salary are approximately \$50,000, while the salary range maximum is \$58,533. Since the State uses salary grade maximums to determine salary reclassification, the midpoint and the minimum may no longer represent the competitive range of pay.

A typical salary structure has enough grades and salary ranges to cover the lowest and highest paying jobs with an adequate progression between the two to reflect external (market) and internal (State) equity. The basic criterion that determines pay differences, when moving up a salary structure, is the midpoint-to-midpoint difference. The State's midpoint differential begins at 4.1 percent at grade 50 and increases to 4.8 percent at grade 89.

Typically, lower level salary ranges that encompass clerical, office services, and technician jobs have a midpoint differential of 5 to 7 percent. For technical and professional level jobs, the midpoint differential gradually increases to 7 to 9 percent and senior management jobs have differentials of 10 to 20 percent. Midpoint progression reflects a philosophy that the jobs in the lower levels of the salary structure have a shorter learning curve; thus salary growth is typically achieved through acquiring additional skills and knowledge and promotions. As employees move into management-level positions, the learning curve timeline is longer and promotion opportunities are less; therefore, salary growth is typically within the job's salary range versus moving up in the salary structure.

Eighty percent of the State's classifications fall in grades 60 through 79, and there are only 3 grades with more than 5 percent of the jobs. In a typical salary structure, the majority of employees would be found in the same grades as the majority of the jobs, but in North Carolina 82 percent of the employees fall in grades 50 through 69. Exhibits 3-11 and 3-12 present the distribution of the employees and the classifications by grades, respectively.

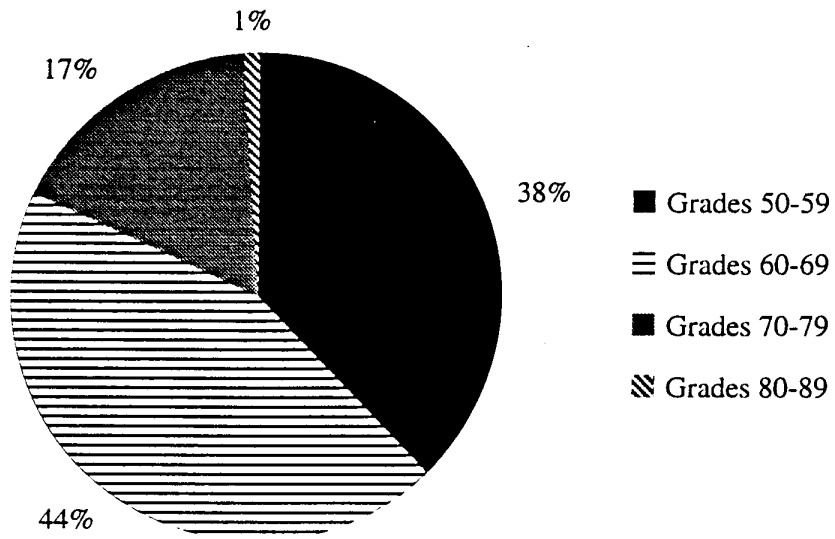
This analysis indicates that the design of the salary structure does not allow for the progression of jobs within job families, promote career development, or allow for salary growth other than through frequent movement up the structure (i.e., promotions). In addition, the present design makes it harder and more expensive to administer than necessary.

Number of classifications

As noted in Exhibit 3-13, North Carolina currently has 4,891 classifications. For information purposes, the exhibit also shows OSP's estimate of the number of classifications (i.e., 3,500) reported to the National Association of State Personnel Executives for a recent report. Exhibit 3-13 shows that the number of classifications in North Carolina is significantly higher than the average of the 49 other states, which is 1,955. Exhibit 3-13 also shows that North Carolina's ratio of number of employees served to the number of total classifications is 15. This ratio is lower than the average of all states, 22. There are 8 states that have more than 65,000 employees covered by their classification system. The 8 states are shown in bold in Exhibit 3-13. The average ratio for these 8 states is 46. Again, North Carolina is lower, indicating that the number of classifications may be excessive. It also may indicate that the classification system has been misused to raise the compensation levels of employees.

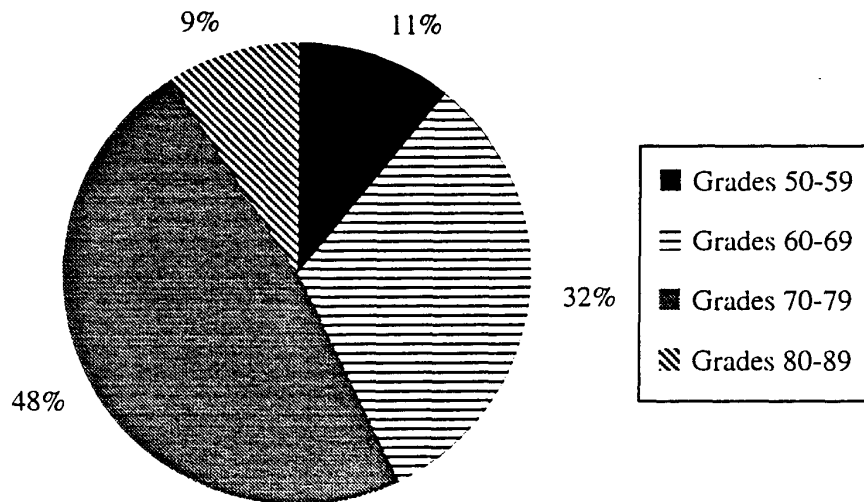
As a result of budgetary constraints, salary increases have been limited, which typically leads to position inflation. Position inflation occurs when supervisors/managers promote employees to higher job levels and into management levels to provide salary increases. This results in excessive layers of management and numerous one-to-one relationships, which is a common finding throughout the organization and staffing team's performance audit findings.

Exhibit 3-11
Percentage of Employees by Grade



Source: Performance Management Information System report number PM532
Date: March 6, 1992

Exhibit 3-12
Percentage of Classifications by Grade



Source: Performance Management Information System report number PM689
Date: December 31, 1991

Exhibit 3-13
Ratio of State Classified Employees Served
to Number of Classifications

| <u>State</u> | <u>Number of</u> <u>Classifications</u> | <u>Employees</u> <u>Served</u> | <u>Ratio</u> |
|-----------------------|--|-----------------------------------|--------------|
| Alabama | 1,600 | 28,000 | 18 |
| Alaska | 1,050 | 13,500 | 13 |
| Arizona | 1,500 | 27,000 | 18 |
| Arkansas | 1,900 | 23,000 | 12 |
| California | 4,324 | 179,000 | 41 |
| Colorado | 1,348 | 27,000 | 20 |
| Connecticut | 2,600 | 50,000 | 19 |
| Delaware | 1,434 | 11,500 | 8 |
| Florida | 1,596 | 108,232 | 68 |
| Georgia | 1,570 | 58,000 | 37 |
| Hawaii | 1,660 | 22,682 | 14 |
| Idaho | 1,550 | 10,200 | 7 |
| Illinois | 1,680 | 64,187 | 38 |
| Indiana | 1,500 | 38,470 | 26 |
| Iowa | 1,250 | 20,000 | 16 |
| Kansas | 1,142 | 29,196 | 26 |
| Kentucky | 1,614 | 31,907 | 20 |
| Louisiana | 3,800 | 60,000 | 16 |
| Maine | 1,500 | 12,900 | 9 |
| Maryland | 3,000 | 61,933 | 21 |
| Massachusetts | 1,150 | 72,000 | 63 |
| Michigan | 2,700 | 61,519 | 23 |
| Minnesota | 2,140 | 40,727 | 19 |
| Mississippi | 2,053 | 28,242 | 14 |
| Missouri | 1,100 | 30,000 | 27 |
| Montana | 1,350 | 12,862 | 10 |
| Nebraska | 1,300 | 14,000 | 11 |
| Nevada | 1,300 | 11,000 | 8 |
| New Hampshire | 1,490 | 9,000 | 6 |
| New Jersey | 6,400 | 78,000 | 12 |
| New Mexico | 1,200 | 17,000 | 14 |
| New York | 7,300 | 200,000 | 27 |
| North Dakota | 1,075 | 9,743 | 9 |
| Ohio | 1,804 | 55,523 | 31 |
| Oklahoma | 1,418 | 33,845 | 24 |
| Oregon | 1,100 | 30,000 | 27 |
| Pennsylvania | 2,782 | 83,473 | 30 |
| Rhode Island | 1,500 | 19,000 | 13 |
| South Carolina | 2,318 | 64,870 | 28 |
| South Dakota | 551 | 8,400 | 15 |
| Tennessee | 2,258 | 40,425 | 18 |
| Texas | 1,339 | 108,455 | 81 |
| Utah | 2,500 | 15,000 | 6 |
| Vermont | 1,280 | 6,989 | 5 |
| Virginia | 1,888 | 83,641 | 44 |
| Washington | 2,100 | 48,924 | 23 |
| West Virginia | 2,000 | 22,000 | 11 |
| Wisconsin | 2,000 | 60,000 | 30 |
| Wyoming | 774 | 9,480 | 12 |
| AVERAGE | 1,955 | 43,894 | 22 |
| North Carolina* | 3,500 | 73,167 | 21 |
| North Carolina | 4,891 | 74,134 | 15 |

Source: National Association of State Personnel Executives' report on
State Personnel Office: Roles and Functions Date: Published March 1992

* Numbers reported in NASDE report

** All classifications reported on PMIS:

-3,062 regular classification/1,153 temporary classifications/84 X grades/286 no grades/390 flat rates

The use of temporary classifications (i.e., T-Grades) contributes to the excessive number of total classifications. Of the total classifications, twenty-four percent (1,153) are temporary classifications. T-Grades are needed when a position is redesigned or a new job is created that does not match any of the current classifications in the system. The T-Grades are established when the position is unique and is only needed temporarily for a special project or when insufficient information is available to make a permanent classification and pay recommendation. Such information would include the availability of competitive market data, a job description, and a current classification specification that fits the job. When the position management division conducts a classification study of the job, it becomes a permanent classification.

OSP attempts to evaluate T-Grades to make them permanent classifications within one year; however, approximately 80 percent of the T-Grades have been effective for more than three years. This is caused, in part, by the large number of agency requests for new or reclassified positions, which has resulted in a backlog of classification studies to be performed. The increased use of T-Grades indicates the need for an updated classification system that is flexible and responds to North Carolina's current job demographics and services.

Classification and compensation plans need to be continually updated and reviewed so that the system responds to changes in supply and demand for job skill sets and compensation levels. It is also important to have a system that is manageable and designed using modern human resource management practices and principles. Many states have realized the importance of maintaining the integrity of the compensation system because it is the framework with which the human resource system operates. According to a survey conducted by the National Association of State Personnel Executives, 28 states have performed a comprehensive classification review within the past 10 years.

Based on our analysis, the State's classification system needs significant updating and improvement.

Recommendation

The State of North Carolina should develop and implement a new classification and compensation system. This classification and compensation system study should include the development and implementation of the following components of a successful classification system:

- Compensation philosophy
- Job descriptions
- Classifications

- Job evaluation - both external and internal
- Salary structure
- Pay delivery (method for granting salary increases)

A classification study should determine which jobs are currently paid below, at, or above the competitive market. To revamp the classification system of the State, an external and internal evaluation will need to be done to determine whether the current salaries paid are competitive. A job evaluation review will provide the competitive information needed to determine whether salaries paid are equitable across departments and equitable with the market.

The job evaluation process will also provide information for designing a new salary structure or structures. Salary inequities are a perceived problem across State government. The study will reveal such inequities and provide the basis for reconciliation of inequitable salaries and inequitable classifications.

The new compensation plan will entail a revised salary structure and classifications will be slotted to grades in the structure. A projected cost estimate should be provided to the State to bring employees up to the new salary grade minimum. In addition, inequities with salaries should be flagged and recommendations made to the OSP, agencies, universities, and commissions on how to address the inequities. Programs to reconcile salary inequities should be implemented by the agencies, universities, and commissions and should be monitored by the OSP. More than one structure may be needed because of the various occupational groups employed by the state.

In conducting a comprehensive review of its classification system, the State should consider:

- Reviewing laws, policies and procedures for determining SPA/EPA designations. If the foundation of procedures and laws is ineffective, the rest of the system will have operational and maintenance problems.
- Assessing current EPA/SPA designations in the agencies and universities. This will require that all jobs (EPA and SPA) be analyzed to determine their proper classification and exemption status. Thus, the State will need to collect job descriptions and salary information on all SPA positions.
- Consolidation of titles within classes and more generic job titles. This would be a means for achieving greater flexibility in assigning staff to tasks, while providing greater job/career mobility for employees.
- Dual career tracks that provide employees with greater opportunities for vertical growth

without becoming managers. With a dual career track, an employee can choose to stay on a technical track without being penalized in salary. If an employee is qualified to move into a managerial path, that avenue will exist as well. With a system designed to accommodate both types of employees, the State will be better equipped to place those individuals who truly possess managerial skills into managerial positions. A dual career track is illustrated in Exhibit 3-14.

Finding 7 - The State's compensation philosophy is heavily weighted toward cost of living and longevity as opposed to pay-for-performance

Compensation in the 1990s is moving toward a pay-for-performance philosophy. Organizations are beginning to evaluate their compensation philosophy and the effectiveness of funds spent on compensation. Performance pay, if designed and implemented correctly, can be one of the most effective ways an organization can motivate employees and increase productivity.

In today's environment, managers recognize that longevity pay does not link an organization's goals with employees' needs. Rewarding for continued service or longevity does not motivate or encourage increased productivity, it merely rewards employees for remaining employed with the State.

According to the recent GPAC employee attitude survey, State employees rated the statement, "People who work hard in your agency are recognized and rewarded for their extra effort," with a 2.8 rating on a scale of 1 to 10. Within the past five years, employees have received cost of living adjustments and minimal performance increases based on their performance appraisal rating and the availability of funds. Exhibit 3-15 illustrates the legislated pay increases (including cost-of-living and merit) for State employees over the past five years.

According to a recent survey published by the National Association of State Personnel Executives:

- There are 31 states with a performance increase program. Only 16 of these states also awarded across the board increases.
- There are 15 states that have a performance bonus program.
- Of the 21 states that awarded performance increases in 1991, the average increase was 4 percent.
- Only 3 of the southeastern states used in our analysis--Alabama, South Carolina, and West Virginia--awarded performance increases in fiscal year 1991. The average performance increase for these 3 states was 4 percent.